MNI Political Risk Analysis - Markets Braced for Volatility Ahead of Key Turkish Court Decision

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Executive Summary

- **On Monday, September 15, the Ankara 42nd Civil Court of First Instance will decide whether to overturn the CHP's congress in 2023, which would see chairman Ozgur Ozel ousted.**
- **The constitution assigns the authority to oversee elections, including party congresses, to the Supreme Election Board, which has already endorsed Ozel's leadership.**
- **However, the Ankara court could still annul the congress on procedural grounds, which many legal experts deem unconstitutional.**

Turkish markets are bracing for the most significant court ruling in a series of cases over alleged irregularities and corruption since the main opposition Republican People's Party's (CHP) victory in last year's local elections. If the Ankara court rules against the CHP, as most expect it to, Ozgur Ozel would be stripped of the party chairmanship. The court could then name a trustee to run the party or reinstate former chairman Kemal Kilicdaroglu. The court could also dismiss the case or postpone any ruling for further review to await the outcome of a separate court case on the congress, which has a hearing set for November 4.

Given President Recep Tayyip Erdogan has already defeated Kilicdaroglu in the 2023 elections, his reinstatement amid a waning popularity could lead to infighting within CHP ranks. Kilicdaroglu has previously said that he's willing to return to the post if a court invalidates the vote that removed him. But Ozel warned that his return would be a "historic mistake."

Even if the court rules against the CHP, it remains unclear for how long a newly-appointed administration will serve for. This is because the CHP have prepared an extraordinary congress on September 21 with the aim of immediately re-electing Ozel should he be ousted. Meanwhile, the CHP leader has said the party would refuse to hand over his post and that he would remain in its Ankara headquarters. If needed, he said the party could call millions of Turks into the streets to protest.

Ruling against CHP expected to lead to infighting within party ranks

Ozel says anyone appointed by the court to replace him would not be able to cancel this plan, but Daily Sabah write that if Kilicdaroglu is reinstated, Ozel's expulsion may be immediately implemented, intensifying the power struggle within the CHP. Pro-opposition media has claimed Kilicdaroglu is currently weighing post-court scenarios with a very close circle. The newspaper add that if the court rules for "absolute nullity," the former CHP leader would wait for about a week to watch for developments before making the trip to the CHP headquarters.

Some analysts note that a negative ruling for the CHP could boost President Erdogan's prospects of extending his time in office. A presidential vote is not scheduled until 2028, but it will need to come sooner if Erdogan wants to run again and he would need significant parliamentary support in order to reform the constitution to make it happen.

Erdogan has led Turkey for 22 years, first as prime minister from 2003 and then as its elected president since 2014. The current constitution only allows two five-year presidential terms. Erdogan is already on his third, but he argued his initial term took place before Turkey moved from parliamentary rule to presidential rule.

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Local markets braced for volatility, CBRT intervention

Volatility across Turkish markets is expected should the court decide to appoint its own trustees to head the CHP, but reaction may be somewhat subdued given markets will have likely priced in a decision against the CHP following a similar ruling against the party's Istanbul congress last week.

Foreign investors sold a net $1.3bln in bonds and stocks after the ruling that voided the CHP's Istanbul congress, while state lenders sold an estimated $5bln to defend the currency. The Borsa Istanbul 100 Index has fallen over 11% off the August highs.

Morgan Stanley noted recently that "The improvement in macro fundamentals, i.e., continued disinflation and notable recovery in reserves during the summer months, should provide resilience against domestic uncertainties. However, risks related to FX and reserves would be on the CBT's radar".

Meanwhile, the CBRT maintained the 300bp gap between the one-week repo rate (40.5%) and the overnight lending rate (43.5%) at its most recent meeting, providing policymakers with the flexibility to tighten conditions by shifting funding across windows – which was demonstrated during the episode of political turmoil that proceeded the arrest of Istanbul Mayor Ekrem Imamoglu in March.